

September-October 2014

Summary of EFRAG Technical Expert Group (TEG) and EFRAG Consultative Forum of Standard Setters (CFSS) meetings

On 16 September 2014 EFRAG TEG held a conference call. The following topics were discussed:

- IASB Publication *Bearer Plants (Amendments to IAS 16 and IAS 41)*
- IASB Exposure Draft *Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)*
- IOSCO *Proposed Statement on Non-GAAP Financial Measures*

On 18 September 2014 EFRAG CFSS held a meeting to prepare for the Accounting Standards Advisory Forum meeting September 2014 and discussed:

- IFRS 3 *Business Combinations* – Post-implementation Review
- IASB Project *Discount Rates*
- IASB Project *Disclosure Initiative*
- IASB Project *Financial Instruments with Characteristics of Equity*
- IASB Project *Leases*
- IASB Project *A Review of the Conceptual Framework for Financial Reporting*

On 1 October 2014 EFRAG TEG held a conference call to approve EFRAG's comment letter on the IASB Exposure Draft *Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)*.

On 8 and 9 October 2014 EFRAG TEG held its monthly meeting. The following topics were discussed:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IASB Publication *Annual Improvements to IFRSs 2012–2014 Cycle*
- IASB Publication *Equity Method in Separate Financial Statements (Amendments to IAS 27)*
- IASB Publication *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*
- IASB Project *Insurance Contracts*
- IASB Project *Leases*
- IASB Project *A Review of the Conceptual Framework for Financial Reporting*
- IASB Exposure Draft *Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)*
- IASB Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13)*
- IASB Discussion Paper *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging*
- IASB Discussion Paper *Reporting the Financial Effects of Rate Regulation*
- IOSCO *Proposed Statement on Non-GAAP Financial Measures*

Highlights

Endorsement advice

EFRAG TEG approved an invitation to comment relating to the endorsement for use in the European Union and European Economic Area of IFRS 15 *Revenue from Contracts with Customers*. It is expected to be published soon. For more details, please see page 2.

EFRAG TEG approved an endorsement advice relating to the IASB Publication *Bearer Plants (Amendments to IAS 16 and IAS 41)* for the use of the amendments in the European Union and European Economic Area. The endorsement advice letter and effects study report were submitted to the European Commission on 22 September 2014. For more details please see page 3.

Comment letters

EFRAG TEG approved a comment letter in response to the IASB Exposure Draft *Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)*. The comment letter was published on 1 October 2014. For more details please see page 5.

EFRAG TEG approved a comment letter in response to the IOSCO *Proposed Statement on Non-GAAP Financial Measures*. The comment letter was published on 13 October 2014. For more details please see page 5.

IFRS 3 Business Combinations - Post-implementation Review

At its meeting on 18 September 2014 EFRAG CFSS members discussed the latest steps in the project and the major concerns identified in response to the IASB's *Request for Information*. The feedback evidences that there are areas of the standards, including the definition of a business and recognition of intangible assets separately from goodwill, which can be challenging and costly to implement for preparers. The subsequent accounting for goodwill, and particularly the impairment model, was noted as an area the IASB should consider when deliberating the feedback it has gathered.

EFRAG CFSS members also received an update on the ASBJ/EFRAG/OIC Discussion Paper *Should Goodwill Still Not Be Amortised?* published in July 2014 to debate issues relating to the accounting and disclosure requirements for acquired goodwill in IFRS 3 and IAS 36 *Impairment of Assets*. The comment period for this paper has been extended to 30 November 2014.

IFRS 9 Financial Instruments

At its October 2014 meeting EFRAG TEG considered an initial analysis of IFRS 9 with respect to the endorsement criteria. No decisions were taken at the meeting.

IFRS 15 Revenue from Contracts with Customers

At its October 2014 meeting EFRAG TEG approved a draft endorsement advice and effects study report. It is EFRAG's initial view that IFRS 15 meets the criteria for endorsement. When taking into account the benefits of having one revenue recognition model applicable across entities, industries and jurisdictions, EFRAG TEG believes that, on balance, the benefits of adopting IFRS 15 will outweigh its associated costs.

Comments are requested by 31 December 2014. As a consequence of the EFRAG reform following the Maystadt report, the endorsement advice on IFRS 15 will be finalised by the new EFRAG Board.

IASB Publication Annual Improvements to IFRSs 2012-2014 Cycle

At its October 2014 meeting EFRAG TEG discussed an initial draft endorsement advice and effects

study report. No decisions were taken at the meeting.

IASB Publication Bearer Plants (Amendments to IAS 16 and IAS 41)

On its 16 September 2014 conference call EFRAG TEG approved an endorsement advice relating to the use of the amendments in the European Union and European Economic Area.

EFRAG's assessment is that the amendments satisfy the technical criteria for endorsement. EFRAG submitted its endorsement advice letter and effects study report to the European Commission on 22 September 2014.

IASB Publication Equity Method in Separate Financial Statements (Amendments to IAS 27)

At its October 2014 meeting EFRAG TEG continued its discussions on the draft endorsement advice and effects study report on the amendments which allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. A revised draft endorsement advice and effects study report will be considered at a future EFRAG TEG meeting.

IASB Publication Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

At its October 2014 meeting EFRAG TEG considered the narrow-scope amendments, which address an acknowledged inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and those in IAS 28 *Investments and Associates and Joint Ventures*, and discussed the preparation of a draft endorsement advice. No decisions were taken at the meeting.

IASB Project Discount Rates

At its September 2014 meeting EFRAG CFSS prepared for the session of the Accounting Standards Advisory Forum meeting on the project. The objective of the project is to examine discount rate requirements in IFRS and assesses whether there are any inconsistencies that the IASB should address. EFRAG CFSS members exchanged views on the approach taken and various discount rates used in different standards and agreed that it was important to specify the measurement objectives of the discounting.

IASB Project Disclosure Initiative

At its September 2014 meeting EFRAG CFSS discussed various aspects of the IASB's Disclosure Initiative including:

- Materiality;
- Principles of Disclosure; and
- Significant accounting policies.

EFRAG CFSS members also discussed a research paper from the National Standard Setter of the United Kingdom on cash flow statements and related disclosures and an update on the FASB Disclosure Framework project, specifically in regard to the purpose and boundaries of the notes.

Materiality

EFRAG CFSS members highlighted behavioural issues as being the main practical constraints on the application of the concept of materiality. Providing further guidance on materiality might not be sufficient unless it was supplemented with educational efforts with preparers and regulators.

Principles of Disclosure

EFRAG CFSS members reiterated their support for the views expressed in the EFRAG/ANC/FRC Discussion Paper *Towards a Disclosure Framework for the Notes* and acknowledged that some flexibility should be left for preparers in order to add to the relevance of the disclosures.

The notion of 'primary financial statements' was discussed and EFRAG CFSS members considered that notes were an integral part of the financial statements and therefore the usefulness of information should be considered as a whole. There should be no difference in importance between the primary financial statements and the notes

Significant accounting policies

EFRAG CFSS members observed that practices were already starting to evolve throughout Europe (upon local initiatives from preparers or regulators) and it was suggested that the IASB could look at these to identify good practice.

IASB Project *Financial Instruments with Characteristics of Equity*

At its September 2014 meeting EFRAG CFSS discussed the IASB's tentative decisions with respect to the project and how they interacted with the EFRAG Discussion Paper *Classification of Claims*. EFRAG CFSS members thought that a research project of such fundamental importance should not be limited by the basic principles of IAS 32 *Financial Instruments: Presentation* but that the project should still consider why some of exceptions in, and discomfort with, the current requirements arose.

IASB Project *Insurance Contracts*

At its October 2014 meeting, EFRAG TEG received an update on the IASB's September re-deliberations and held educational sessions relating to the project and discussions at the EFRAG Insurance Accounting Working Group. The re-deliberations discussed related to the determination of interest expense and the revenue recognition pattern for contracts under the premium-allocation approach. The educational sessions were on contracts with participating features, the book yield versus the effective yield approach to determine the discount rates used to recognise the interest expense in profit or loss for those types of contracts and the use of Other Comprehensive Income. No decisions were taken at the meeting

IASB Project *Leases*

At its September 2014 meeting EFRAG CFSS discussed recent re-deliberations by the IASB and FASB of the guidance proposed in the 2013 Exposure Draft *Leases*, and a report on the additional public consultation on leases for preparers.

At its October 2014 meeting EFRAG TEG discussed a draft report from the additional public consultation for users and preparers. The consultation has been carried out in partnership with National Standard Setters and EFRAG has received 44 replies to the consultation for preparers and 16 replies to the consultation for users.

IASB Project *A Review of the Conceptual Framework for Financial Reporting*

At its September 2014 meeting EFRAG CFSS was informed about the papers prepared for the Accounting Standards Advisory Forum meeting on the project and were informed about a Swedish study on how financial statements are used.

At its October 2014 meeting EFRAG TEG discussed the latest developments on the project. It was noted that the IASB had prepared a paper on the implications of long-term investment for the Conceptual Framework which concluded that the Conceptual Framework would be an appropriate toolbox for developing Standards that would be useful for long-term investors, without specific

mention of the long-term business model, including the interaction with the insurance activities project.

IASB Exposure Draft *Investment Entities: Applying the Consolidation Exception (Proposed amendments to IFRS 10 and IAS 28)*

On its 1 October 2014 conference call EFRAG TEG approved EFRAG's comment letter that was discussed on the 16 September 2014 conference call.

EFRAG in its comment letter supported extending the exemption from preparing consolidated financial statements to a subsidiary of an investment entity. However, EFRAG disagreed with the IASB's proposal for an investment entity parent to consolidate a subsidiary, instead of measuring it at fair value, only if this subsidiary acts as an extension of the operations of the investment entity parent, and does not qualify itself as an investment entity. On the final proposal, EFRAG's view was that fair value measurement should be retained by a non-investment entity investor when applying the equity method to its investment entity investees regardless of whether it is an associate or a joint venture.

At the October EFRAG TEG meeting a feedback statement was approved. The feedback statement was published on 9 October 2014.

IASB Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13)*

At its October 2014 meeting, EFRAG TEG discussed an initial draft comment letter. The draft comment letter will be discussed again at a future EFRAG TEG meeting.

IASB Discussion Paper *Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging*

At its October 2014 meeting EFRAG TEG received an update on input received from constituents during outreach on the Discussion Paper and EFRAG's draft comment letter. No decisions were taken at the meeting.

IASB Discussion Paper *Reporting the Financial Effects of Rate Regulation*

At its October 2014 meeting, EFRAG TEG discussed an initial draft comment letter. The draft comment letter will be discussed again at a future EFRAG TEG meeting.

IOSCO Proposed Statement on Non-GAAP Financial Measures

On its 16 September conference call and at its October 2014 meeting, EFRAG TEG discussed a comment letter to IOSCO. The comment letter is based on EFRAG's consultation process on ESMA's Consultation Paper *Guidelines on Alternative Performance Measures* carried out in March and April 2014.

In its response, EFRAG reiterated that non-GAAP financial measures can provide useful information when properly used and presented and therefore supports the idea that they should be clearly defined and explained by preparers and presented consistently over time to improve the understanding of performance by users of financial information.

However EFRAG recommended that the scope of the requirements be supported by an underlying principle so as to target the requirements more narrowly and hence contribute to effective disclosures.